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ORGANIC TRADE PROMOTION IN UGANDA: A CASE STUDY OF THE EPOPA PROJECT

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CONTENTS

INTRODUCTION	349
KEY INGREDIENTS FOR SUSTAINABILITY	350
Existing company with export experience	350
Organic products	350
Smallholder production	351
Quality technical support	352
Financial injection	352
Business approach	353
EXPANDING THE APPROACH	353
MARKETING OPPORTUNITIES	354
MARKETING CHALLENGES	355
CONCLUSION	358

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INTRODUCTION

The Export Promotion of Organic Products from Africa (EPOPA) project was conceived by the Swedish International Development Agency (Sida) as a result of them commissioning a consultancy to explore opportunities for African countries to utilize their low input agriculture for commercial advantage. This exploration took place in the early 1990s and by 1995, the first phase of EPOPA was tendered for implementation in Uganda, where it was felt that the production, market and policy opportunities were best suited for successful implementation. The initial tender was awarded to the Dutch organic consultancy company, Agro Eco, which has now merged with the Louis Bolk Research Institute to become Agro Eco Louis Bolk Institute (AELBI). In the mid-1990s the organic market was growing, but its opportunities were still not fully realized by many traders operating in Africa.

The first work of the EPOPA consultants was to present the opportunities of the organic market place to existing export companies operating in Uganda. These were mainly dealing in commodity crops and hence this was where the interest was born, firstly in the opportunity to export organic cotton and secondly in organic coffee, mainly Arabica. EPOPA was conceived as a private sector programme and the entry point for any intervention was close co-operation with an existing export company and the identification of production areas where organic production would face the least risk. The market focus had to be on certified organic products and the production base had to be smallholder farmers.

An existing company, an organic focus and smallholder production were the key ingredients from the company side and then to these were added quality technical support and financial injections from the EPOPA side. Each project was considered as an investment by EPOPA into the company and hence the company had to be open with EPOPA about its circumstances, and be willing to share costs in the development of the organic product line. The success of the intervention was partly judged by the 'pay-back' period that was required for the EPOPA investment to be recouped from increased incomes to the supplying farmers – mainly considering the organic premium.

KEY INGREDIENTS FOR SUSTAINABILITY

It is worth looking at some of these ingredients in some more detail and considering their bearing on the eventual market success of the project, which actually reflects its sustainability.

Existing company with export experience

Export-orientated marketing is not easy. Seller and buyer are far from each other, transport chains can be unreliable, paperwork can be daunting and the time lag between purchasing from farmers and payment by the buyer can be very long. Although EPOPA was able to offer technical support in some of these areas, especially where they were unique for organic trade, it was not its major activity area. Trading competence was assessed during the company selection process and, although there were exceptions to this guideline, the best results were generally achieved when previous export experience was present.

Organic products

EPOPA wanted to get extra money to the farmers and thus help them relieve their poverty situation. Much production in Uganda is ‘traditional’ and uses very few, if any, chemical inputs. But organic is not simply about not using chemical inputs; it proactively cares for the soil, the plant or animal, the environment within which production is taking place and the people who are involved in production. Such priorities are summed up in the International Federation of Organic Agricultural Movements (IFOAM) principles of “Health, Ecology, Fairness and Care”.

With the EPOPA focus on organic production and marketing there was the opportunity to apply these principles and increase the quality and quantity of production. Often these improvements were the first benefits that farmers realized by entering the organic project. Naturally, the key market opportunity was normally

seen as the premium price and increased market opportunity through being able to promote and sell certified organic products, but the premium varies and an organic crop enters a competitive market similar to any other. Through better soil fertility management, soil and water conservation practices, and the application of other good agricultural practices, organic coffee farmers were able to increase the grade quality of their coffee and quantity available for the market.

The organic premium was targeted to be 20 percent above the conventional price, but was seen to vary from zero percent when the local demand for a product was very high, as had been the case with sesame in 2009 due to the market demand from Sudan and Kenya, to over 200 percent when the organic opportunity was unique and demand high, such as the case with a number of organic fresh fruits. In 2006/2007, 54 000 farmers associated with the EPOPA programme sold over USD 12.6 million; the extra income – or organic premium – they realized was in the region of USD 2.6 million and the premium for the exporters was over USD 5 million.

Smallholder production

It has been stated by Ugandan policy makers that the predominance of smallholder farmers is a negative factor holding back the country's development potential. The impact of EPOPA and the successful organic trade that has been the result of its implementation has shown this not to be the case.

Organic certification within the EPOPA programme was through “smallholder group certification”. Each smallholder farmer is given a unique code, signs a contract with the buyer, is visited at least once a year by an internal organic inspector – who is also able to offer the farmer extension advice on organic practices – and the farmers feel a pride in knowing that they are internationally certified as organic. This organization is described in a document called an “Internal Control System” (ICS) and the discipline that surrounds being part of an ICS has also been seen to boost the farmers' ability to plan their farms in a better way and even take better care of their families.

Under the influence of the EPOPA project alone within Uganda, from 2004 to 2008, there were over 87 000 smallholder farmers certified as organic providing cocoa, coffee, cotton, tropical fruits, hibiscus, shea, sesame, chillies, vanilla, lemongrass, cardamom and other crop products to their contracted buyers. The value of these products in 2006/2007 on the export market was over USD 25 million.

Quality technical support

About 50 percent of the money supplied by Sida towards the EPOPA programme went towards providing technical support along the organic value chain from production, through certification and processing to end marketing. As far as the partner companies were concerned this was seen as free and expected support from the EPOPA consultant team, but when a value is put on this its importance can soon be realized.

The process of smallholder group certification is not very complicated, but it does require careful attention to detail if certification is going to be readily achieved. Normally, organic production of tropical products is not that difficult, but when pest, disease and nutritional problems arise it was a great relief for the farmers to know that EPOPA technical support was just a phone call away and when export paperwork and market presentation were causing concern, again EPOPA technical advice was available to assist the company through the issues. When promoting a new system or market opportunity, it is very important that the process should not fail, and that risks to companies and farmers should be minimized. Hence, this is where quality technical support is essential.

Financial injection

EPOPA did not give loans and would not normally give grants, but it did assist in covering a number of costs related to the organic conversion process, including direct support towards the cost of certification for the first two years of the three-year project period. This financial support helped remove some of the risk felt by

companies as they embarked on organic marketing – new products in a new market with uncertain expectations.

A major EPOPA cash injection was to support the selected companies to directly contact potential buyers, mainly through participation in trade fairs, such as Biofach Germany, which is the premier global organic trade fair, but also presenting products of the selected companies whenever the chance arose through EPOPA consultants based in Europe. In fact – EPOPA had a whole section that was focused on market presentation and promotion – these consultants continue to play this linking role despite the EPOPA programme having come to an end at the end of 2008.

Business approach

It was at times difficult for some in Sida to come to terms with dealing with large companies that have significant resources and considering donor support as a company investment, but this was appreciated in the long run when results showed significant returns on Sida investment. In the second phase of EPOPA – from 2002 to 2008 – the Sida investment was about USD 5.5 million and yet the extra annual income received by farmers in 2006/2007 was about USD 2.6 million, which meant that the Sida investment was recovered in just two years.

With this commercial foundation, business does not come to an end when the donor support stops. This is ably demonstrated by the fact that, in 2009, at least 14 of the 19 companies assisted by EPOPA continued to be involved in organic trade, and, global recession excepted, will continue to do so for the foreseeable future. Thus, the premium income will continue to come to their contracted farmers.

EXPANDING THE APPROACH

In 2001, the first phase of EPOPA was evaluated and a second phase was put out to tender and won by a joint tender of AELBI and the Swedish organic consultancy company, Grolink. The basic format of “EPOPA 2” was the same and the six

foundation stones listed above remained. However, in other ways the approach was expanded – non-traditional crops were added to the commodity crops and the organic sector in Uganda, within which the export trade taking place, was also developed, i.e. the organic movement, organic certification services, capacity building, policy advocacy, local/regional marketing and value addition.

By the close of EPOPA in 2008, 19 companies had benefited directly from EPOPA support and about 15 products were available in fully certified organic form, UgoCert Ltd was fully accredited to offer certification services, Uganda Martyrs University had adopted the EPOPA-commissioned organic sector training as an official option within its short course programme and the Ugandan National Organic Policy was in its final stages of government approval.

EPOPA operated in Uganda in two phases between 1995 and 2008, a long period of commitment from Sida and perhaps one of the reasons for the quality impact – there was time to develop, learn from mistakes and adjust for better impact. Sida was able to measure the impact of EPOPA through the additional income received by farmers, but many others measured the success of a trade-based programme through the success of marketing and the growth of the companies operating in these markets. Some of the marketing opportunities and challenges are discussed below.

MARKETING OPPORTUNITIES

- ✓ **Niche market:** Organic certification allowed the products to enter a niche market, which was growing rapidly on a global scale. Quality products could be more easily recognised and the reputation of Uganda as a supplier of organic tropical products is now recognised internationally.
- ✓ **Product quality:** Product quality is both an opportunity and a challenge. The opportunity is that Uganda has the potential to supply the best quality products in terms of active content e.g. vanillin in vanilla, sweetness in tropical fruits.
- ✓ **Production cost:** With production coming from smallholder farmers, the naturally good growing environment and the low incidence of pests and diseases, the

cost of production is low and even with the high cost of transport from Uganda, product costs can remain competitive.

- ✓ **Strong organic movement:** The National Organic Agricultural Movement of Uganda (NOGAMU) is now a well-established and recognised membership organization for those involved in the organic sector. Its officers have managed to raise funds to support the organic market chain, including capacity building support to help companies meet export requirements and to promote Ugandan products within the global organic market.
- ✓ **Marketing support:** A number of trade-based support initiatives are seeking to assist Ugandan companies meet international marketing requirements, such as the EU-Pesticides Initiative programme, the Dutch Centre for the Promotion of Imports from Developing Countries (CBI) market assistance programme, and the Business to Business (B2B) programme of Danida. These programmes focus on all exports, but companies trading in organic products are able to benefit from their support.
- ✓ **Contract farming arrangement:** An agreement between the farmer and the buyer is one of the key elements of group certification and this has enabled farmers to grow products knowing that they have an assured and premium-priced market to reward their efforts. The trading arrangement normally also cuts out the middle person and so more of the buyers offer prices that are able to reach the farmer.

MARKETING CHALLENGES

- ✓ **Market communication:** EPOPA dealt with Ugandan companies that were part of international trading groups that reached down to Ugandan family business entrepreneurs. The marketing needs of the companies varied a great deal and often in the case of national entrepreneurs, market communication was a key learning element. The way to do business with an American, a German or a Japanese buyer is quite different and a successful manner of approach to one

can often destroy a relationship with another. This could be in a face-to-face meeting at a trade show or through an email communication. The marketers had to learn how to communicate appropriately.

- **Transport:** Uganda is a land-locked country and along with the rest of the export business, this is a challenge to the organic sector. Due to the premium price of some products, airfreight became a viable option, but with increasing concerns about global warming there has come a growing concern about the environmental impact of such trading practices. For instance, the transport of fresh fruits from Uganda by container is not a viable option due to shippers not being able to guarantee delivery times and, in any case, once this option is taken the “picked-ripe” marketing slant cannot be used for market advantage and competition from West Africa and Latin America grows.
- **Market acceptance:** Some products have “known” origins and despite the excellent quality of the Ugandan products they have to battle to gain acceptance over the “normal supply location” e.g. vanilla is from Madagascar, fresh pineapples are from Ghana, African Arabica coffee is from Ethiopia or Kenya.
- **Competition:** Organic status does not guarantee a market and all the market norms have to be played if products are to be marketed successfully. Some potential entrepreneurs unfortunately imagine that organic certification is the magic panacea to their marketing problems; in reality they were probably poor marketers before they became organic.
- **Product specification:** Global markets are very demanding on the specifications they require for purchased products – grain cleanliness should be 99.9 percent, fresh pineapples should be no more than 1.5 kg per fruit, cocoa should be properly fermented. All these can be achieved in Uganda with careful production techniques, grading and processing investment, but sometimes the samples are produced to meet the specification, however, as time goes by, the quality controls lapse, specifications are not met and the market opportunity closes.
- **Product quality:** This is related to the specification – international markets operate to international standards and organic status is not an excuse for poor quality in other areas. For some crops, and especially for processed products,

this quality might need to be officially monitored through the application of additional certification procedures such as Hazard Analysis and Critical Control Points (HACCP), Global Gap or Utz (Mayan for “Good”) Certification. This requires additional expertise, investment and time, but cannot be avoided if marketing is going to be successful.

- ✓ **Product quantity:** Apart from the major commodity crops, Ugandan production, especially when local entrepreneurs are involved, is still on a small scale, for example, a company producing 500 kg of dried fruit per month. Direct retail marketing is a means of achieving a market for such quantities and this has worked well for some exporters involved in vanilla and dried fruit marketing, but the quantities able to be marketed through such routes are limited. For a number of products, companies could benefit by combining production and marketing jointly and yet the confidence to have such an arrangement is limited.
- ✓ **Value addition demands:** Value addition is being promoted by the government of Uganda and seems to be a natural opportunity, but processing requires investment in machinery, careful consideration of the processing demands, availability of appropriate packaging, application of quality standards and the fact that many developed countries want to do the processing themselves means that import incentives only relate to raw materials. Packaging demands can also change rapidly: one EPOPA-supported company in Tanzania started with jars, then changed to sealed cans and then to ring pull cans to meet the market demand.
- ✓ **Government support:** The Ugandan government has allowed free trade and there are no taxes on exports, but, at the same time, their support for the promotion of the organic market has been limited and much had to be borne on the shoulders of EPOPA and now NOGAMU.
- ✓ **Strength of alternative markets:** A number of the organic export products being promoted are food products e.g. sesame, honey and fruits, and at times the local market demand can be stronger than the export demand, such as the example of sesame given above. Despite the contract arrangement, farmer allegiance is often weak and when a better market opportunity comes along they will sell into this market and the organic exporter runs out of supplies.

CONCLUSION

In conclusion, attention is drawn to an initiative that took off in the final year, 2008, of EPOPA. This was a coming together of some of the EPOPA-supported export companies to form the “Association of African Organic Exporters” (AFROEX). There are now 12 members of this association spread around East Africa and they have registered a joint brand, “Jambo Africa”, and have already embarked on a joint marketing effort, sourcing of packaging and lobbying. This seems to be a very positive development as we consider the marketing challenges listed above and may be a light for the future as EPOPA has come to an end. For more information on AFROEX refer to www.organicjambo.com.

